

been coming into West Bengal from East Pakistan since that census. We do not think it right to readjust the population of West Bengal on this account, as other factors such as variations in birth and death rates, inter-state migration, etc., may have produced changes of population in other States. In our recommendations relating to grants-in-aid under article 275, we have taken note of the difficulties of West Bengal arising out of the influx of refugees.

107. As regards the actual manner of distribution of the States' share in each year, we agree with the first Finance Commission that it will be convenient both to the States and to the Union if the shares are expressed as fixed percentages. We recommend that sixty per cent of the net proceeds in any financial year of taxes on income other than agricultural income, except in so far as those proceeds represent proceeds attributable to Union territories or to taxes payable in respect of Union emoluments, be assigned to the States and distributed among them in the following manner:

State	Percentage
Andhra Pradesh	8·12
Assam	2·44
Bihar	9·94
Bombay	15·97
Kerala	3·64
Madhya Pradesh	6·72
Madras	8·40
Mysore	5·14
Orissa	3·73
Punjab	4·24
Rajasthan	4·09
Uttar Pradesh	16·36
West Bengal	10·08
Jammu and Kashmir	1·13

108. We further recommend that one per cent of the net proceeds of the income tax be prescribed as the net proceeds attributable to Union territories.

X. Division of Union Excises

109. Prior to 1st April 1952, no duty of excise was shared between the Union and the States. The first Finance Commission broke new ground when they recommended that, with effect from 1952-53, 40 per cent of the net proceeds of the excise duties on matches, tobacco (including manufactured tobacco) and vegetable products should be distributed among the States in proportion to their population

This recommendation was accepted by Government and embodied in the Union Duties of Excise (Distribution) Act, 1953. In the case of Jammu and Kashmir, after its financial integration with India from 1st April 1954, sums equivalent to 40 per cent of the net proceeds of these excise duties levied and collected by the Government of India in that State were paid to it, under an agreement entered into with that State, until 1st April 1957, when that State came within our scheme of distribution.

110. With taxes on income ceasing to be an expanding source of revenue, it is obvious that any further substantial devolution of revenues to the States by sharing of taxes will have to come from Union excises. The coverage and yield of these duties have expanded considerably in recent years. While in 1952-53, excise duties were levied on thirteen commodities giving a net yield of Rs. 83.03 crores, the number of commodities has risen to twenty-nine with a total net yield of Rs. 259.57 crores in the budget for 1957-58.

111. The State Governments were asked for their suggestions in regard to the range of dutiable commodities which should be shared between the Union and the States, the proportion to be allocated to the States and the principles which should govern the distribution of the States' share.

112. All States asked for an increase in the number of commodities the duties on which should be shared. Bihar, Kerala, Mysore, Rajasthan, Uttar Pradesh and West Bengal suggested the inclusion of all excise duties in the scheme. Orissa wanted the duties on sugar, paper, tea and cotton cloth to be added; Assam, the duties on sugar, cotton cloth, motor spirit and tea; Punjab, the duties on sugar, cloth and tyres; Madhya Pradesh, the duties on sugar, kerosene, tea, cotton cloth and non-essential oils; and Bombay, the duties on sugar and cotton cloth. Andhra Pradesh and Madras did not make any specific suggestion, but desired the inclusion of as many duties as possible, or at least the duties on major articles. Jammu and Kashmir suggested the addition of duties on sugar, tyres and cloth.

113. As regards the States' share of the divisible duties, Assam, Bihar, Bombay, Madras, Orissa, Punjab, Uttar Pradesh, West Bengal and Jammu and Kashmir suggested 50 per cent; Andhra Pradesh, Kerala and Madhya Pradesh, 60 per cent; and Mysore and Rajasthan, 70 per cent.

114. Several suggestions were made about the principles of distribution of the shares allocated to the States. Andhra Pradesh, Bihar, Kerala, Madhya Pradesh, Madras and Uttar Pradesh suggested population as the sole criterion; Bombay and West Bengal favoured consumption. Orissa proposed that 80 per cent should be distributed on the basis of population with a weightage for scheduled castes, scheduled tribes, backward classes and the rural population, and the balance on the basis of area. Assam suggested the distribution of 80 per cent on the basis of population, weighted according to area, and the balance on the basis of origin which, they thought, was easy to trace as the duties were levied at the production stage. Rajasthan proposed the distribution of 80 per cent on the basis of population, 10 per cent with reference to the backwardness of the area and 10 per cent on the basis of needs for developing the industries on the products of which Union excises are levied. Mysore recommended the distribution of 50 per cent on the basis of population and the rest on the basis of collection. Punjab did not make any specific recommendation.

115. As already mentioned, it was urged by a number of States that all excise duties should be shared. We have carefully considered this suggestion and have come to the conclusion that, for the present, it is neither necessary nor expedient to make such a sweeping change. But we feel that we shall be meeting the general wish of the States if we widen the range by increasing the number of duties to be shared. We have, accordingly, decided that to the three duties which are at present shared, *viz.*, duties on matches, tobacco (including manufactured tobacco) and vegetable products, should be added the duties on sugar, tea, coffee, paper and vegetable non-essential oils. As to the States' share of these duties, keeping in view the sum we propose to transfer to the States from Union duties of excise in our overall scheme of devolution, we consider that it should be 25 per cent. The reduction in the share now allocated to the States out of the duties on tobacco, vegetable products and matches will be more than made good by the widening of the range of divisible duties and each State will receive a larger sum from this source than at present.

116. We now turn to the distribution of the States' share of the divisible excises. The last Finance Commission suggested that consumption of the taxed commodities could provide a suitable basis for distribution but in the absence of any reliable data of consumption, they recommended population as indicating the nearest measure of

consumption. They also suggested that arrangements should be made for the collection of statistics of consumption of the more important commodities subject to excise. Such statistics are still not available so that in this matter we are in no better position than our predecessors. While it is possible to hold that consumption, if accurate data were available, may provide a suitable basis of distribution, it must be borne in mind that distribution on the basis of consumption may operate in favour of the more urbanised States which are also in a position to raise substantial revenue from sales taxes on such consumption. On the whole, we feel that it is preferable to continue population as the sole basis for distribution. But the practical effect of such distribution would now be to place a few States in a more advantageous position in relation to the rest. We felt that, in the present circumstances, a small corrective in favour of the latter States would be justified. We have accordingly decided that 90 per cent of the States' share of the divisible Union excise duties should be distributed on the basis of population, the balance of 10 per cent being used for adjustments.

117. We accordingly recommend that—

- (1) 25 per cent of the net proceeds in any financial year of the Union duties of excise on matches, tobacco (including manufactured tobacco), vegetable products, tea, coffee, sugar, paper and vegetable non-essential oils be paid to the States; and,
- (2) this amount be distributed among them in the following manner:—

State	Percentage
Andhra Pradesh	9·38
Assam	3·46
Bihar	10·57
Bombay	12·17
Kerala	3·84
Madhya Pradesh	7·46
Madras	7·56
Mysore	6·52
Orissa	4·46
Punjab	4·59
Rajasthan	4·71
Uttar Pradesh	15·94
West Bengal	7·59
Jammu and Kashmir	1·75